

VZCZCXRO7812
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSL RUEHSR
DE RUEHVI #1257/01 2731013
ZNR UUUUU ZZH
P 301013Z SEP 09
FM AMEMBASSY VIENNA
TO RUEHC/SECSTATE WASHDC PRIORITY 3382
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUCNMEM/EU MEMBER STATES

UNCLAS SECTION 01 OF 02 VIENNA 001257

SENSITIVE, SIPDIS

TREASURY FOR FTAT, OCC/SIEGEL, AND OASIA/ICB/MAIER
TREASURY PASS TO FEDERAL RESERVE AND SEC/E. JACOBS

E.O. 12958: N/A
TAGS: [EFIN](#) [AU](#)
SUBJECT: Austria Banking/Finance Update

REF: (A) Vienna 0642; (B) Vienna 0484; (C) 08 Vienna 1619; (D) 08
Vienna 1665

Sensitive but Unclassified; not for internet distribution.

SUMMARY

- - - -

¶1. First-half results of Austrian banks were largely positive, with higher operating results offset by a strong expansion of loan loss provisions. Tier 1 capital ratios as of June 30 ranged from 6.7% to 10.9%. Unicredit Bank Austria will not take GoA equity participation and financial sector experts predict that none of Austria's other large banks will need further resort to GoA capital. The Lehman collapse cost Austrian banks and insurance companies EUR 470 million in write-offs. Austrian industry is showing strong interest in the GoA's EUR 10 billion loan guarantee facility. The Vienna Stock Exchange and the stock exchanges of Budapest, Ljubljana and Prague have formed a family brand "CEE Stock Exchange Group/CEESEG" and recently launched two new joint stock indices for the CESEE area. END SUMMARY.

Mixed Earning/Loss Reports for First Half of 2009

- - - - -

¶2. Overall, the results of Austrian banks in the first half of 2009 were positive, characterized by an increase in operating results compared to the same period of 2008 and a strong increase in loan loss provisions, according to a central bank press release. Taking a look at the big six:

-- BA, Erste/EB, and Raiffeisen Zentralbank/RZB reported increasing operating profits. Despite large net write downs of loans and huge loan loss provisions, which ranged from a doubling to a six fold increase, they all showed net profits after taxes. RZB's CESEE subsidiary Raiffeisen International/RI also reported a small profit after taxes.

-- BAWAG was able to report a small net profit after taxes compared to a loss in the first half of 2008.

-- Volksbanken/VB is still suffering from losses in its former Kommunalkredit subsidiary (ref C) and from structured investments: it reported an after-tax loss of EUR 93 million for the first half and disclosed that it will likely report a loss for all of 2009. VB is restructuring and downsizing itself, which may include the sale of its subsidiary Investkredit (a bank specialized in corporate finance and real estate).

-- Hypo Alpe Adria/HAA reported a loss after taxes of EUR 162 million for the first half of 2009. Like VB, HAA has launched a restructuring program.

¶3. Tier 1 capital ratios as of June 30 were as follows:

BA	7.5%
Erste	8.4%
RZB	10.9%
RI	10.4%
BAWAG	6.7%
VB	10.7%
HAA	8.1%

GoA Equity for Banks

14. Bank Austria/BA has said it will not/not take GoA equity participation, pulling out of talks with the Finance Ministry/MoF for a GoA equity participation (targeting around EUR 2 billion). BA had opposed a swap option clause allowing the GoA to convert its participatory capital into voting stock -- part of GoA contracts with Hypo Alpe Adria, Volksbanken and BAWAG -- arguing that its main competitors Erste Bank and Raiffeisen Zentralbank/RZB do not have such clauses in their state equity agreements. BA's Italian parent UniCredit will raise fresh equity from private sources. NOTE: another GoA precondition for supporting BA was that Unicredit receive capital from the Italian government, which also appears highly unlikely. END NOTE.

15. The GoA's EUR 550 million equity injection and EUR 400 million guarantee (ref A) for BAWAG (fully owned by U.S. investment fund Cerberus Capital Management) is still pending European Commission approval. That agreement included the right to convert state equity capital into voting stock (for instance if BAWAG defers interest payments) and stipulated an equity injection by Cerberus, which reportedly came in early August (EUR 260 million). Hypo Alpe Adria and Volksbanken are reportedly not able to pay interest on GoA equity, reflecting their weak operating income in the current environment.

16. Klaus Liebscher, CEO of Finanzmarktbeteiligung / FIMBAG (ref D -- the GoA body which administers Austria's EUR 15 billion bank equity pool) predicted publicly that none of Austria's large banks will have to resort to a second GoA capital infusion. Liebscher does not

VIENNA 00001257 002 OF 002

expect the GoA will use up all of the available EUR 15 billion. Thomas Mirow, head of the European Bank for Reconstruction and Development (EBRD), has also predicted in the media that Austrian banks will not need more capital despite rising loan losses in CESEE.

Lehman Brothers: Austrian Losses of EUR 615 Million

17. The collapse of Lehman Brothers in September 2008 cost Austrian banks EUR 470 million in write-offs; Austrian insurance companies, EUR 145 million. Banks most affected were RZB (EUR 227 million), BA 40 million), Erste (EUR 36 million), VB (EUR 83 million), and Kommunalkredit (EUR 45 million). Among insurers, the Vienna Insurance Group wrote off EUR 70 million, Uniqa EUR 40 million and Wuestenrot EUR 35 million.

Strong Industry Demand for GoA Lending Guarantees

18. On July 8, Parliament passed a bill reallocating EUR 10 billion of the GoA's EUR 75 billion interbank lending guarantee facility (ref A) for guarantees to industry. A dispute among the governing parties SPO and OVP about details of GoA conditions for providing the guarantees -- including whether companies using the GoA guarantee could pay dividends or bonuses to managers -- delayed implementation of the guarantee instrument until mid-August. Due to the delay no individual guarantees have been contracted yet, but some 60% of the available EUR 10 billion has reportedly been earmarked among some 120 large Austrian enterprises (NOTE: foreign companies with large facilities in Austria are also eligible).

New CEE Stock Exchange Group, New Joint CEE Indices

19. As of September 17, the Vienna Stock Exchange/VSE and the stock exchanges of Budapest (majority-owned by VSE), Ljubljana and Prague now bear the group brand "CEE Stock Exchange Group" or CEESEG. CEESEG has launched two new joint stock indices:

A) the CEETX-CEESEG Traded Index, a capitalization-weighted price index in EUR and USD made up of the 25 most actively traded and

highest capitalized stocks of the CEESEG members, and

B) the CEESEG Composite, a capitalization-weighted price index in EUR and USD composed of the CEESEG members' leading share indices, i.e., the index comprises the stocks included in the ATX, BUX, PX and SBITOP.

EACHO